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State of Vermont  
OFFICE OF THE GOVERNOR  
**Governor's Budget Address**  
**Tuesday, January 23, 2007**

**THE VERMONT WAY FORWARD**  
*A Responsibility for Affordability*

*Mr. President, Madame Speaker, Members of the General Assembly, fellow Vermonters:*

I'm pleased today to present a responsible, balanced, and compassionate budget.

This budget adheres to our long-held devotion to fiscal responsibility and is designed to meet the many competing demands we face without raising taxes. And it demonstrates my personal commitment to establishing more responsible and sustainable increases in spending across all areas of government.

I present to you a General Fund budget that grows at only 3.16 percent and a transportation budget that increases at 2.6 percent. I also present to you capital appropriations totaling \$49.2 million, consistent with the report of the Capital Debt Affordability Advisory Committee.

My recommendations do not increase more than inflation plus population growth.

Capping growth in state spending at this level is a responsible way to ensure our appropriations do not exceed the ability of taxpayers to foot the bill.

That is why I begin today by proposing a statutory cap for all General Fund budgets beginning this year. This is a practical and prudent step that will enforce the same discipline on the budget process that taxpayers must use with their own family finances.

In addition, I propose we end the practice of including a so-called "waterfall" section in the General Fund. In recent years, the "waterfall" has become like the fabled "deli" section of the capital bill, once full of earmarks and pet projects.

Rather than a "waterfall", I propose that any excess funds available at the end of the fiscal year be invested in a reserve account for construction of a new state hospital – a critical expenditure that will overextend available resources if we do not plan ahead.

These limits on budget growth are responsible and long overdue. They will help ensure that we do not press the challenges of today onto future generations and provide ample opportunity for the strategic and practical investments vital to the future of our state.

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Coupled with this budget are essential elements of the Affordability Agenda: my plan to cap property taxes, reduce health care costs and make homeownership and higher education more affordable.

The Affordability Agenda is essential to our immediate economic success and a prerequisite to achieving the goals of *The Vermont Way Forward*. If working Vermonters cannot afford to live in our state, and if high costs and lack of opportunity force their children and grandchildren away, we have failed to protect Vermont and our way of life.

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Achieving the prosperity and peace of mind we desire for every generation requires that we act now to provide Vermonters with relief from the property tax.

I hear it everyday. Vermonters are upset with the growing burden of their property taxes and the unsustainable increases in spending—and they have every right to be. In the current fiscal year, most property tax bills went up by over seven percent. In some school districts, property tax bills skyrocketed by more than 30 percent. Without immediate action, next year will be as bad, or worse.

This is unacceptable to the people of Vermont.

That is why we must take immediate steps to moderate unsustainable growth in spending and bring relief to Vermont's beleaguered property taxpayers—this year.

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At the beginning of each of the last two legislative sessions I offered numerous proposals to bend the trend of education spending increases. I again offer my ideas with the expectation that we take immediate steps, and with the understanding that my ideas are not the only ones.

The centerpiece of my proposal is a property tax cap that makes our investments in public education sustainable. Unlike Act 60 – a law that confounds taxpayers to this day – my tax cap is straightforward and reasonable.

With a five-year sunset provision, the cap will be in place only as long as it would take to make growth in school spending sustainable. The cap could be overridden if 60 percent of local voters pass their school budget and it would apply on a year-to-year budgetary

basis or on a per-pupil spending basis so those few schools with growing populations wouldn't be penalized.

More than 40 other states have similar caps. Moreover, recent experience here in Vermont demonstrates their effectiveness. In 2004, the Legislature's own Education Cost Containment Study Committee reported growth in special education spending was cut nearly in half after the implementation of a cap.

For too many years, the tax system born from Act 60 has been filled with fine print that shelters the very rich and punishes those who have worked to keep their family home. I am asking again that the Legislature establish a means test to protect Vermonters, like our senior citizens, who own homes but have modest incomes. And I am challenging this assembly to further close those loopholes that allow the owners of million dollar homes to receive government assistance checks and avoid paying their fair share.

As we work to provide property tax relief, we cannot shift this burden to another tax. Shifting this expense to another tax would require you to increase that new education tax year after year, just to keep pace with the current rate of spending increases.

I understand that bending the spending curve requires difficult choices and I am open to listening to all of your ideas. In the end, real property tax reform will require that we listen respectfully, but recognize the urgency and take action this year.

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Just as we work to meet our obligation to the property taxpayers who fund education, we must also keep our commitments to the men and women who educate our children.

My budget provides \$40.7 million for the Vermont State Teachers' Retirement System and meets the commitments made last year to a new amortization schedule that addresses previous underfunding.

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We must also do more to ensure the equality of the systems we provide for our children.

Last year, I asked the Legislature to work with me to improve our foster care system. As you may recall, I had recently convened more than 100 foster children in this very chamber. Many of them talked about the abrupt termination of state support on their 18<sup>th</sup> birthday or upon high school graduation—expressing deep concerns about being forced from loving homes with no alternatives and limited preparation for life on their own.

The lack of an appropriate transitional period results in a disproportionate percentage of these young Vermonters becoming homeless or incarcerated; and it increases the likelihood that they will become addicted to drugs or alcohol.

We must do more to give these Vermonters a better chance for success and a life of independence.

At my request, over the last year, several groups came together to plan improvements in this system. Based on their recommendations, I have included funding for young Vermonters in foster care to be supported on a voluntary basis up to age 21. This support will be made available if they work or attend educational or vocational training programs. I have also provided funding to support foster children as they transition into the workplace and find housing.

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Every Vermonter deserves a safe, affordable home. Unfortunately, too many working Vermonters are unable to afford homes near where they work and are forced to spend time commuting that could be better spent with their families. High property taxes only serve to exacerbate this problem.

To put homeownership within reach of thousands of hardworking Vermonters I am again proposing initiatives that will help create new homes. The concept of my New Neighborhoods initiative is simple: We will build near existing neighborhoods and increase the stock of new housing while respecting the traditional settlement patterns that make Vermont such a unique and wonderful place to live. As long as this new housing is in keeping with the traditional character of surrounding neighborhoods, and consistent with the plans and desires of the community, these projects would enjoy streamlined Act 250 approval. As an added incentive, communities that host New Neighborhoods would receive all taxes generated by the increased grand list value from the new housing for three years.

I am recommending a 4.5 percent increase for the Vermont Housing and Conservation Board. The efforts of VHCB, in concert with our strong network of housing providers, are critical to creating homes for low and moderate income Vermonters.

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We must continue to make health care more affordable for every Vermonter. To this end, my budget continues our commitment to full and successful implementation of Catamount Health as well as our long-term efforts to save Medicaid and reduce the cost-shift on those already insured.

My budget includes substantial resources for outreach and enrollment to ensure all Vermonters know their options and have access to affordable health care coverage.

We can be proud that we were the first state in the nation to implement spending controls that have helped save Medicaid for the most vulnerable. As a result, we have cut the Medicaid deficit by more than \$400 million and there is no projected deficit for fiscal years 2007 or 2008.

To reduce the cost shift that occurs when government-funded health care fails to pay its fair share, I have proposed nearly \$7.3 million to increase the rates Medicaid pays our doctors and hospitals.

Preventing costly ailments must remain a key cost containment strategy. I therefore propose continued funding for the Vermont Blueprint for Health so Vermonters with chronic conditions—like heart disease, cancer and diabetes—get the right care at the right time and at the best possible price. In addition, I have included funding for our new immunization pilot program so Vermonters can access recommended vaccines without worrying about their cost.

To reduce expensive, chronic and debilitating diseases associated with no, or limited, dental care, I am proposing a comprehensive package of oral health initiatives totaling \$815,000. These programs ensure oral health exams for school-age children; provide reimbursement rate increases for dentists; and reimburse primary care physicians for oral health risk assessments.

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The good health and peace of mind provided by health insurance is only one element of helping Vermonters succeed. Education is another key component.

I understand how important it is to Vermont's families, and how important it is for the state that every Vermonter be offered the opportunity to pursue an education beyond high school. That is why scholarships have been the cornerstone of my efforts to make college affordable and encourage our young people to stay here and contribute to the economic security of Vermont.

Recently, our Next Generation Commission made several thoughtful and forward-thinking recommendations to help us transform our education and job training networks.

My budget provides the \$7 million recommended by the commission: \$3 million for scholarships, \$2 million for loan forgiveness and \$2 million for workforce training. And I have proposed to fund these programs entirely through General Fund revenues.

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Three weeks ago, I presented *The Vermont Way Forward*—a four-part plan of innovative education, environmental leadership, technological advancement and job creation.

The strength and affordability of our institutions of higher learning are central to the success of this proposal. So too is the quality of our primary and secondary education system.

It's no secret that American children are outperformed by their peers in other nations in academic areas essential to future economic success—math, science and technology.

That is why I proposed the creation of Robert T. Stafford Schools. I again want to urge you to renew the charter of the bipartisan Next Generation Commission to study the creation of Stafford Schools and other means to enhance the educational opportunities in these areas. The quality of our curricula will have a major influence on our future.

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*The Vermont Way Forward* requires that we strengthen Vermont's brand by continuing to be a leading environmental steward.

To build on the many environmental initiatives already underway, I have offered several key steps to encourage the expansion of the bio-fuels market and I look forward to the proposals of this Legislature.

This budget includes nearly \$2 million to fund a 16 percent reduction of the tax on fuel-efficient and hybrid vehicles, a tax rate reduction on bio-diesel for individuals and businesses that use it for transportation, and a tax incentive that will make bio-fuels as affordable as regular home heating oil.

Furthermore, this budget includes \$8.6 million of operating funds and capital investments for the Clean and Clear Action Plan to improve and protect water quality in the Lake Champlain basin and waterways throughout Vermont.

To enhance our efforts, my capital bill includes funding for a wind turbine for the Grand Isle fish hatchery, the completion of a solar project at our Middlesex facilities and \$1 million for a geothermal heating system at the Vermont Veterans' Home in Bennington.

I propose that we more than triple our park maintenance funding to \$800,000. And to help meet my goal of producing 25 percent of our energy from farm or field-based renewable sources by 2025, my budget includes \$400,000 for farm energy grants.

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No one has more to gain or lose from preserving the quality of the land, and its ability to produce the food that sustains us, than those who make their living from it: Vermont's farmers.

Overall, I am recommending an operating budget for the Agency of Agriculture that increases 8.2 percent.

This past summer, I was very pleased when the Emergency Board approved the \$8.9 million package I recommended to assist our farmers through a particularly challenging time of flooding, high fuel costs, and low milk prices. This was an important step, but we

have to look beyond the immediate challenges and make investments that offer these hardworking entrepreneurs more stability and profitability.

I am recommending funds for mobile processing units that will provide additional economic opportunities for farmers and speed the delivery of farm-fresh foods to markets in Vermont and elsewhere.

Our organic dairy industry continues to grow with over 120 organic dairy farms today and an additional 80 in the process of transitioning. Vermont is poised to take advantage of the annual 25 percent increase in the demand for organic dairy products and the premium price it garners. My budget continues investments we began last year to assist interested farmers in making the transition.

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I have also proposed that by 2010 Vermont become the nation's first "e-state" – the first state to offer universal access to broadband and wireless technology everywhere within its borders.

To spearhead this important effort, I have called for the creation of a Vermont Telecommunications Authority that would partner with private enterprise to build a next generation infrastructure.

To ensure the Authority has sufficient operating funds in its start-up year, I am recommending nearly a half-million dollars in this budget.

The infrastructure that we build will form a foundation for economic growth and job creation that is second to none.

This is an unprecedented opportunity to leap far ahead of the leading telecommunications systems available today. This is no time for mediocrity. If we're serious about making Vermont a leader in the 21<sup>st</sup> Century economy, we must act now.

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Being the first e-state requires a state-of-the-art e-government.

We have taken some steps to accelerate the development of more electronic government services, like vehicle registrations and fishing licenses. Despite our progress, we remain behind other states in the efficient use of technology.

That is why my administration is engaged in the Strategic Enterprise Initiative—a comprehensive plan to prepare for, and invest in, more efficient technology systems and workforce training. This initiative will transform state government into a 21<sup>st</sup> Century operation, increase productivity, eliminate wasteful redundancy and produce a more effective and less costly government.

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With a commitment to affordability, an innovative education system and a state-of-the-art telecommunications network, we can establish Vermont as a world center for environmental engineering.

Thanks to our long-held environmental ethic, our system of higher education and the framework provided by the Vermont Environmental Consortium and the Green Valley Initiative, our state has the foundation from which this sector can grow and create more and better paying jobs across all levels of our economy.

As I noted in my inaugural address, global demand for these services is growing—especially in emerging industrial nations. But we must act now to plant our flag and establish Vermont as the leader we know it can be in this emerging new industry.

That is why my recommended funding for the Agency of Commerce includes an additional \$300,000 to be used by the new Environmental Engineering Advisory Council to conduct market research, develop marketing materials, make direct appeals and provide assistance to engineering firms seeking to locate in Vermont.

There is no state more prepared or motivated to support an industry dedicated to the greatest environmental challenges of our time.

We already have an example of just how compelling this vision is to employers.

URS Corporation is one of the largest engineering firms in the world with almost 30,000 employees. While URS provides a wide range of engineering services, they have an office in New Hampshire that focuses primarily on environmental engineering.

This company has been considering opening an office in Rutland. A URS employee forwarded to company management my vision for transforming Vermont into the world center for environmental engineering, and a manager of the New Hampshire division later reported that our commitment to this field has made their decision much easier.

Now, in the next several months, URS is poised to open a new environmental engineering office in Rutland.

It is very exciting to see that our message, our ethic and our innovation, knowledge and creativity are beginning the economic transformation we all know is within our reach. I fully expect that with your support we can have much more success in this area in the years ahead.

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A state-of-the-art telecommunications network is not the only type of infrastructure Vermont needs to succeed in the 21<sup>st</sup> Century. We need to keep our transportation arteries – our system of roads and rails, airports and buses – healthy and robust.

In Vermont, we're lucky to have a hard working highway crew keeping our roads safe in inclement weather and performing maintenance when Mother Nature permits. But without the proper resources directed at the proper priorities, our transportation agency can only do so much, and, unfortunately, parts of our existing infrastructure have slipped into disrepair.

This is not a new phenomenon. This is a problem that's been building for over twenty years, but now is the time to set it right, the time for Vermont to realign its transportation priorities around system preservation – an approach that shifts resources to the repair and rehabilitation of existing roads, bridges and culverts.

I call this approach the "Road to Affordability" and, financially, it will pay dividends quickly, as early intervention and preventative maintenance will result in significant savings. A dollar we spend today on maintenance can save as much as 10 dollars tomorrow.

The budget I propose for the Agency of Transportation reflects these new priorities. Funding for preventative maintenance activities will increase 89 percent and includes more money for bridge maintenance, and culvert and ledge repair. The budget for maintenance operations will increase \$4.1 million or seven percent.

New paving will remain a priority. The paving budget has grown 157 percent over the last five years and I propose that it be increased again by nearly \$1 million.

We've made good strides in our town bridge inventory and this year we are funding construction of another twenty-six town bridges as well as numerous state and interstate structures. And this coming summer we will see the long-awaited opening of the Missisquoi Bay Bridge, providing safe and efficient passage across the bay.

The transportation budget includes an infusion of \$14.5 million to start work on the northern leg of the Bennington Bypass; we plan to break ground this spring.

Finally, this budget reduces reliance on the Transportation Fund by other parts of state government and moves us closer to my goal of ending the raid on the Transportation Fund altogether.

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As we invest in the safety of our roads and bridges, we must also invest in the safety of our communities. My capital budget includes \$7.7 million for a new forensic and health laboratory. These facilities are more important than ever before in the investigation of crimes, the prosecution of criminals and the protection of our public health. And my

budget maintains our commitment to provide essential training resources to local firefighters, police and EMS providers.

I'm also recommending increases for our Office of Veterans Affairs and the Armed Services Scholarship Fund, as well as funding for our veterans' medals, the Disabled and Needy Veteran's Fund and a new vehicle for the Disabled American Veteran Transportation Network.

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Ladies and gentlemen, the budget I present to you today is an honest, principled budget.

This budget reflects the reality that, no matter how you measure it, Vermonters labor beneath one of the highest tax burdens in the country.

It holds steadfast to our obligation to address the crisis of affordability that threatens our economic security and the prosperity of future generations.

And it recognizes the best way to balance our budget, and pay for government services, is to invest in policies like *The Vermont Way Forward* that create jobs and inspire innovation.

As you go about the important business of reviewing these proposals I ask that you keep these principles in mind.

If you do, I'm certain we can reach a responsible agreement that advances the well-being and prosperity of the people of Vermont.

Thank you all very much, indeed.

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